JUN 3 2004

Mr. David Wirth
Chairman, Advisory Committee on
Beginning Farmers and Ranchers
Illinois Finance Authority
427 East Monroe Street, Suite 201
Springfield, Illinois 62701

Dear Mr. Wirth:

On behalf of Secretary Veneman, thank you for your letter of May 5, 2004, submitting recommendations developed by the USDA Advisory Committee on Beginning Farmers and Ranchers (Committee). Due to the topic, your letter was referred to my office for a response.

The Department of Agriculture (USDA) is grateful for the work the Committee has done and congratulate you for being elected Chairman. USDA is also pleased to have implemented a number of the previous recommendations developed by the Committee.

To ensure that the Committee's recommendations receive full attention, we have requested a review from personnel of the various USDA Agencies. A detailed response will be forthcoming.

Again, thank you for the hard work you and the Committee put forth in developing these recommendations. USDA looks forward to working with you and the Committee to improve our programs so we are able to provide increased assistance to beginning farmers and ranchers.

Sincerely,

Carolyn B. Cooksie

Carolyn Cooksie
Deputy Administrator
Farm Loan Programs

JUL 15 2004

Mr. David L. Wirth
Chairman, USDA Advisory Committee on
Beginning Farmers and Ranchers
Illinois Finance Authority
427 East Monroe Street, Suite 201
Springfield, Illinois 62701

Dear Mr. Wirth:

This is in further response to your May 5, 2004, letter enclosing a set of recommendations from your committee. I have responded to your recommendations in the order presented in your letter.

1. The Secretary develop and implement a mission focus to heighten awareness and coordinate beginning farmer and rancher opportunities, including a departmental policy statement that establishes measurable goals and objectives for USDA and each of its mission areas. To ensure follow through and coordination, an interagency council should be established similar to the Sustainable Development Council or the Small Farm Council.

This is a well thought-out recommendation and has merit. I will instruct various USDA officials to meet and discuss this recommendation and how to best consider implementing it.

2. The Secretary extend the public comment period on the Farm Service Agency's (FSA) proposed rule for Regulatory Streamlining of its Direct Farm Loan Programs by 30 days. This recommendation was faxed to you on March 31, 2004. The Committee appreciates the fact that the comment period was reopened for 15 days on April 19, 2004.

As you know, the public comment period was extended until May 4, 2004. Over 579 interested parties commented on the proposed rule with over 1,500 comments. FSA is currently reviewing and considering all comments to determine which comments and recommendations should be incorporated into the final rule.

3. The Secretary seek short-term administrative and long-term legislative changes to grant FSA the flexibility to develop and implement non-traditional lending programs to benefit beginning farmers and ranchers. For example, a program similar to FSA's Youth Loan Program could be used to assist beginning farmers and ranchers with small, direct loans. Other possible programs include micro-loans and intermediary re-lending. Further, some innovative credit concepts such as accepting chattel property as equity for FSA's Down Payment Farm Ownership Loan Program for beginning farmers and ranchers might serve some needs that are unmet today.

The Department is always willing to consider recommendations which may improve FSA operating procedures and/or provide additional benefit to FSA borrowers, including beginning farmers and ranchers. I will instruct FSA officials to review their existing programs and determine what administrative changes, as well as proposed legislative changes, can be made to assist beginning farmers and ranchers.

As the Committee is aware, FSA currently offers a Rural Youth Loan Program to youth between the ages of 10 and 21 which allows them to borrow up to $5,000 for 4-H, FFA, or other similar organizational projects. This program assists future potential farmers in developing their farm and financial management skills at an early age and prepares them for the transition into other FSA lending programs. FSA's Lo-Doc operating loan program is also a good tool utilized by beginning farmers and ranchers. It allows for an operating loan up to $50,000, with limited paperwork, provided the applicant meets certain eligibility criteria. If this program does not fit their needs, beginning farmers and ranchers can also utilize the regular direct operating (OL)and farm ownership (FO) lending programs which have set lending limits of up to $200,000 each. Any of FSA's existing loan programs can assist beginning farmers and ranchers with small, direct loans. In FY 2003, FSA's average size loan under the direct OL program was $46,750. As you know, FSA also provides targeted funding to beginning farmers and ranchers and limited resource rates for those who qualify.

4. The Secretary support not less than the authorized funding levels for FSA's direct loan programs in USDA's future budget proposals. Through Fiscal Year (FY) 2007, the 2002 Farm Bill authorizes funding levels of $205 million for FSA's direct farm ownership loans and $565 million for direct operating loans. Due to the demand for these programs by family farmers and ranchers, including beginning farmers and ranchers, the Committee recommends that USDA support no less than these levels through FY 2007. In particular, the Committee urges the Secretary to work with the Office of Management and Budget (OMB) to ensure that budget requests are established based on estimated needed program levels rather than allowing changes in credit subsidy levels to result in wide year-to-year swings in the USDA budget request for direct loan programs.

The Department will take this recommendation into consideration when establishing future budget proposals. However, USDA must assess the costs of each program and the most effective use of available budgetary resources when preparing FY budgets.

FSA does utilize its administrative authority to transfer money between programs in an attempt to meet funding demand and prevent shortfalls so that all loan requests are funded. For example, in FY 2003, the total allocation for the direct FO program was $129,155 million and $606,282 million for the direct OL program. However, the actual loan obligations for the same period were $168,575 million and $689,849 million respectively, due to transfer of funds between programs. Historically, application requests by beginning farmers and ranchers and socially disadvantaged applicants (SDA) have been funded.

5. The Secretary direct FSA to expand the Land Contract Sale Pilot Program to all interested States. The Committee appreciates that FSA has established this pilot program in six states but is aware that several other states would like to participate. Given the small number of land contract guarantees per state, having these willing states participate will allow for a more robust pilot without a large increase in the total number of guarantees.

In developing the FSA Land Contract Sale Pilot Program, FSA requested interested States to volunteer for the five-year pilot program. Beginning late in Fiscal Year 2003, the pilot program was implemented utilizing six states that expressed interest. To date, participation in the program has been limited. A review of the program is currently being conducted so as to determine existing barriers and/or problems that may be prohibiting program participation. Once these items have been identified, changes to the program may be made accordingly. At some future date, FSA may consider program participation by other interested states, pending the outcome of the review.

6. The Secretary support FSA's efforts to obtain 100 additional staff years to conduct FSA's Farm Loan Programs.

The request to obtain 100 additional staff years is in the President's budget; however it is still pending action by the Appropriations Committees.

7. The Secretary direct the Natural Resources Conservation Service (NRCS) to assign bonus ranking points or target funds to beginning farmers and ranchers in conservation programs to increase beginning farmer and rancher participation in such programs.

NRCS currently offers up to a 90% cost-share rate to beginning farmers and ranchers under the Environmental Quality Incentives Program (EQIP). The Conservation Innovation Grants (CIG) program has two programmatic exceptions intended to encourage the participation of beginning farmers and ranchers; (1) 10 percent of the National CIG funds will be set aside for applicants that are beginning farmers and ranchers and (2) applicants are allowed to derive a higher percentage of project matching funds from in-kind contributions.

8. The Secretary direct NRCS to contact all of their States that have implemented or are considering implementing the Farm and Ranch Land Protection Program (FPP) and encourage them to consider adopting or adapting the program guidelines used in Pennsylvania to encourage effective farm transition and transfer strategies.

The Farm and Ranch Land Protection Program (FRPP), formerly known as the Farmland Protection Program, recognizes farm transfer and estate planning as critical components to keep agricultural land in active farms and ranches. To ensure that State and local entities, who apply for FRPP funds, are rewarded for these types of efforts, the NRCS State Conservationist, with advice from the State Technical Committee, awards more points in their FRPP parcel selection process to cooperating entities that are committed to farm transfer and succession plans. This requirement is articulated in the annual FRPP request for proposals and in the FRPP final rule.

9. The Secretary direct the NRCS to review all program rules and remove barriers that may prevent beginning farmers and ranchers from participating in available programs. For instance, a rule in the Environmental Quality Incentives Program (EQIP) requires the participant's land to have been irrigated in two of the previous five years to be eligible for cost share to improve irrigation efficiency. These and similar program barriers should be removed.

NRCS has a Small Farms Program Manager with responsibility for reviewing all program rules to consider barriers that may prevent beginning farmers and ranchers from participating in available programs. NRCS would welcome the opportunity to review any barriers that have been identified. In addition, reviews are conducted at various levels of the Agency to evaluate assistance and opportunities for improvements. The EQIP performance incentive that rewards States that demonstrate a high level of program performance in implementing EQIP includes a factor that measures assistance to limited resource farmers.

10. The Secretary direct the NRCS to make the following changes to the Conservation Security Program: (1) revert it from the proposed watershed approach back to a full-scale national program and eliminate the 90 percent base payment reduction factor and the proposed cost-share restrictions; (2) abide by the 90 percent cost-share provision for beginning farmers and ranchers; and (3) provide for special enhanced payments for beginning farmers and ranchers.

Even though the statute for the Conservation Security Program (CSP) implies an entitlement program, CSP has undergone numerous funding restrictions, caps and changes. The fiscal year (FY) 2004 funding level of $41.4 million will fund about 3,000 to 5,000 contracts, out of a potential applicant pool of about 1.8 million. The Administration's budget allows for $209 million for FY 2005. Additionally, NRCS must keep costs for technical assistance below 15% of the annually expended funds due to a CSP statutory restriction.

The watershed approach gives NRCS the ability to keep the technical assistance costs within the statutory limit and maintain program costs within the annual appropriations. As funding goes up, NRCS can increase the number of funded watersheds.

The rule language allows for cost-shares of up to 90% for beginning farmers and ranchers. However, the total amount of funds available will have an impact on the level of cost-share provided for each sign-up. NRCS does not have the authority to provide enhancement payments outside the five emphasized purposes given in the statute.

11. The Secretary direct the NRCS to issue national guidance requiring a 15 percent differential for cost-share payments under the EQIP Program be provided to beginning and limited resource farmers and ranchers nationwide, as authorized in the 2002 Farm Bill. For example, if the standard 75 percent rate is in use, beginning and limited resource producers should receive 90 percent, but if a state has set the maximum cost-share payment rate at 50 percent of the projected cost of the project, for instance, beginning and limited resource farmers and ranchers would receive 75 percent.

Under EQIP, the current maximum direct program share of cost-share payments to a participant shall not be more than 90 percent of the total cost of the conservation practice for a beginning or limited resource farmer or rancher. Section 1446 of the Food Security Act of 1985 (1985 Act), as amended, authorizes the State Technical Committee to provide recommendations for establishing criteria, priorities, and other State-level initiatives under EQIP. Each State established a State Technical Committee to assist in the technical considerations and to develop the technical guidelines necessary to implement conservation provisions of the 1985 Act. The State Technical Committees provide advice on a number of issues within a variety of conservation programs. Although State Technical Committees have no implementation or enforcement authority, USDA gives strong consideration to the Committee's recommendations.

12. The Secretary direct the NRCS to revise the definition of beginning farmer and rancher to include other applicable components of the statutory definition used by the FSA, with appropriate adaptations for use in conservation program implementation. For instance, NRCS could adopt a cap on farm land ownership, but use a much higher percentage to median farm size than the one FSA uses for the purposes of first time real estate credit.

Regarding the definition of beginning farmers and ranchers, a working group was established to explore what definitions are being used and whether one definition could be used Department-wide. The working group included representatives from the Economic Research Service, the Office of the Chief Economist, FSA, the Risk Management Agency, the Office of Budget and Program Analysis, National Agricultural Statistics Service, and Departmental Administration.

The working group recommended that the following definition be used Department-wide, with FSA having additional components for loan program eligibility:

Beginning Farmer or Rancher means an individual or entity who
(a) Has not operated a farm or ranch, or who has operated a farm or ranch for not more than 10 consecutive years. This requirement applies to all members of an entity.
(b) Will materially and substantially participate in the operation of the farm or ranch.
(1) In the case of a contract with an individual, individually or with the immediate family, material and substantial participation requires that the individual provide substantial day-to-day labor and management of the farm or ranch, consistent with the practices in the county or State where the farm is located.
(2) In the case of a contract with an entity, all members must materially and substantially participate in the operation of the farm or ranch. Material and substantial participation requires that each of the members provide some amount of the management, or labor and management necessary for day-to-day activities, such that if each of the members did not provide these inputs, operations of the farm or ranch would be seriously impaired.

13. The Secretary direct the Economic Research Service, FSA, and NRCS to research policy options for the Conservation Reserve Program (CRP) to enhance beginning farmer and rancher opportunities as the next big wave of CRP contract expirations begin in 2006-2008. Encouraging sale to new farmers and ranchers will not only help the neighboring rural communities, but can also be accomplished in ways to promote strong conservation. Transition strategies could include incentives for sales to beginning farmers and ranchers with a special transition period several years prior to the end of the 10-year CRP contract during which the beginner could start making conservation improvements or make limited economic use of the property, consistent with an approved conservation plan.

FSA has started to review issues and options surrounding scheduled contract expirations of 16 million acres and 6 million acres in September 30, 2007, and 2008. This is a complex issue involving program parameters, budget, and the next farm bill debate as these contracts expire during and after the next farm bill debate. It is expected that the analysis will take several months.

Under current law, we do not have authority to explicitly target or provide enhanced opportunities for beginning farmers and ranchers. However, beginning farmers and ranchers could benefit from other program-based opportunities; e.g., special incentives for buffers, filter strips, etc.

In 1995 and 1996, FSA was faced with similar questions regarding transition of acres to cropland. Those policies have not changed and include limited cover-disturbance options to facilitate producers' preparation for land in expiring contracts to transition to be cropped. These policies, however, are available for all CRP participants with about-to-expire contracts.

14. The Secretary support full funding of the Small Farmer Outreach, Training and Technical Assistance (Section 2501) Program. The committee recommends that USDA support funding of $25 million in its Fiscal Year (FY) 2006 budget proposal. This is the amount authorized in the Farm Security and Rural Development Act of 2002 (2002 Farm Bill).

Regarding the Small Farmer Outreach, Training and Technical Assistance (Section 2501) Program, the overall objective of this program is to enhance the ability of minority farmers and ranchers to operate farms and ranches independently and produce income adequate to service debt, maintain operations and provide a reasonable life style. Section 2501 provides grants to educational institutions and community-based organizations to encourage and assist socially disadvantaged farmers and ranchers to own, operate farms and ranches, to participate in USDA agricultural programs and become an integral part of the agricultural community. This program contributes to the USDA goal to improve the efficiency of agricultural production systems.

In FY 2003, 34 projects were funded for one to three years at 1890 Institutions, Hispanic Serving Institutions, 1994 institutions and community action organizations in 21 States. In 2004, 22 larger projects were funded as the multiyear projects from 2003 continued. In 2004, awards went to the same broad spectrum of institutions with an excellent distribution across all minority groups targeted including African Americans, Hispanics, Native Americans, Asians and Pacific Islanders. In the 2004 competition, there were over $16 million worth of fundable projects, as ranked by peer reviewers. Only $5.935 million were available. Many excellent projects had to be declined funding.

Increased funding would provide opportunities for broader outreach in more States and more communities, and would allow more depth in interaction. Grantees report that one-on-one contact, and rigorous follow-up with disadvantaged producers is frequently required to give adequate assistance with USDA program applications. One-on-one contact, combined with workshops, conferences, and new mobile technology options are operative in 2501 projects funded in 2004. An exciting development in several 2004 funded projects are mobile internet access units which allow grantees to bring internet capability and technological advances in farm and ranch management out to the target groups in rural areas. The benefits of computer literacy training enhance their target groups' capacity to function effectively in their enterprises.. Increased funding would make this technology much more widely available to disadvantaged producers and is crucial to the success of these farmers and ranchers as e-government is more fully implemented.

15. The Secretary request that the Office of Outreach in each agency of USDA, along with the USDA Office of Public Affairs, actively market beginning farmer and rancher opportunities/programs, emphasizing both youth and adults. Examples of this could include presenting information in FFA's New Horizons Magazine,

agricultural related publications, and other appropriate media; provide exhibit booths at the National FFA Convention, trade show, etc.; and develop a USDA website on beginning farmer and rancher issues.

USDA has initiated programs to enhance the future viability of the American farming and ranching community providing financial and human capital to an array of initiatives. In particular, our support of rural youth, many of whom will become farmers, has been highly diverse. For the past several years, FSA has provided the Future Farmers of America Foundation with an annual award of $100,000.

Via a cooperative agreement between USDA and Farm Safety Just 4 Kids, an international nonprofit organization, USDA provided $60,000 in fiscal year (FY) 2003 for the latter to increase its chapters' membership and to produce and distribute safety awareness materials. Through another cooperative agreement, USDA provided the Mississippi Action for Community Education (MACE), a nonprofit organization located in the Mississippi Delta, an award of $175,000. The funds were utilized to introduce at-risk youth to plasticulture; a unique method of farming that enhances the probability of sustained profit.

Both beginning farmers and youths have been major participants in plasticulture projects managed by state departments of agriculture in Alabama and Oklahoma. Each of those agencies are funded via cooperative agreements with USDA.

USDA has also supported youth agricultural initiatives at 1890 Land Grant Institutions. Southern University and A&M University of Baton Rouge, Louisiana were given $15,000 in FY 2004 to support their African American Youth Summer Agricultural Experience Development Program, and Prairie View A&M University in Texas was awarded $5,000 in FY 2003 to support its Rural Youth Agribusiness Initiative.

16 . The Secretary include funding in the FY 2005 budget request for the Beginning Farmer and Rancher Development Program, as authorized by the "Research and Related Matters" title of the 2002 Farm Bill.

Funding for this program will be considered in future fiscal year budgets.

17. The Secretary direct the Cooperative State Research, Education, and Extension Service to include a specific request for beginning farmer and rancher projects in the FY 2004 Supplemental Request for Applications for farm profitability and rural economic development projects under the National Research Initiative Competitive Grants Program. This emphasis should be continued in future fiscal year FRA's.

On June 22, 2004, the National Research Initiative released a supplemental RFA to announce the "Enhancing Prosperity of Small Farms and Rural Agricultural Communities" program. This $5 million program will support interdisciplinary studies to improve our understanding of the interactions between the economic, social, biological, and environmental components of issues important to small farms and rural economic development. It is expected that the research, education, and extension activities funded through this program will be highly relevant to the problems and concerns of beginning farmers and ranchers.

18. The Secretary support the beginning farmer and rancher portion of H.R. 2978, "The Beginning Farmers and Ranchers Tax Incentives Act". Under Section 121A(a)(1) of the proposed bill, land owners who sell their land to a qualified beginning farmer or rancher, who is a first-time buyer, would pay no capital gains tax.

We share the desire to increase the number of beginning farmers and ranchers and to keep more of the Nation's agricultural lands in production. However, we believe that the President's proposal, to exclude 50 percent of the capital gains from the sale of real property to a qualified conservation organization, would benefit more people and improve conservation in our country. Although the President's proposal does not provide an increased benefit for sales to a beginning farmer, such a benefit could easily be incorporated if that is a desirable policy goal to be pursued through the tax code.

19. The Secretary direct the FSA to review its various commodity programs and implement incentives for beginning farmers and ranchers.

FSA continually reviews the operations of its programs to determine if any action is necessary to ensure the programs are operating correctly and most efficiently. FSA would be pleased to hear specific suggestions from your group if you believe additional action is necessary to ensure our programs encourage beginning farmers and ranchers to participate.

20. The Secretary direct the Risk Management Agency (RMA) to leave in place the current Standard Reinsurance Agreement (SRA). RMA has drafted a proposed SRA, which may cause unintended harm to beginning farmers and ranchers. The Committee recommends that SRA not be changed until adequate research is done assuring the changes won't adversely affect beginning farmers and ranchers.

The growing complexity and expansion of risk management tools well beyond traditional crop insurance required that we have a new forward-looking public-private agreement between the government and companies that could meet farmer and industry needs well into the future. Our overall objective throughout this endeavor has been to strengthen the delivery system for sound, effective and affordable risk management tools to America's farmers and ranchers. This also is in the best long-term interests of the companies, the agents, government, taxpayers and the entire industry. The finalization of the 2005

Standard Reinsurance Agreement (SRA) came after months of meetings and negations with the insurance companies involved.

The new SRA took effect on July 1, 2004. All 14 insurance companies who participated in the Federal crop insurance program in 2004 have signed the new agreement for 2005. The availability of crop insurance is unchanged. We believe we have reached an effective and equitable agreement which will benefit all American agricultural producers.

Thank you again for your letter. I very much appreciate your committee's efforts and look forward to working with you on these recommendations.

Sincerely,

J.B. Penn
Under Secretary
Farm and Foreign Agricultural Services